

Message Text

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ACTION IO-14

INFO OCT-01 ISO-00 SCI-06 ABF-01 OMB-01 TRSE-00 RSC-01

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TO SECSTATE WASHDC 4017
INFO AEC GERMANTOWN

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TAGS: AORG, AFIN, IAEA
SUBJECT: IAEA CY 1975 BUDGET

REF: (A) GALANTO-HINSON TELCON 2/20/74
(B) STATE 39239

1. PURSUANT REFTELCON, MISSION PRESSED SECRETARIAT TO DELETE CONTINGENT FINANCING ITEM FROM DRAFT 1975 BUDGET, ARGUING, INTER ALIA, THAT IT PREMATURE TO MAKE JUDGEMENT THAT 1975 CURRENCY RATES WERE LIKELY TO REQUIRE SUCH PROTECTION.
 2. SECRETARIAT ADVISES THAT DRAFT BUDGET DOCUMENT TO BE PRESENTED TO A AND B COMMITTEE (WHICH NOW RPT NOW GONE TO PRESS) WILL CONTAIN NO RPT NO PROPOSED APPROPRIATION FOR CONTINGENT FINANCING IN 1975, INTRODUCTION WILL NOT REFER SPECIFICALLY TO SUCH APPROPRIATION, AND SECRETARIAT WILL NOT ACTIVELY CONSULT WITH OTHER MEMBERS ABOUT IT FOR TIME BEING.
 3. INTRODUCTION WILL NOTE, HOWEVER, THAT BUDGET COSTED ON BASIS OF AS 21.00 TO US\$1.00. PREVAILING BANK RATE IN VIENNA (AFTER BRIEFLY TOUCHING AS 21.00 DURING JANUARY) HAS HUNG AT OR JUST BELOW AS 19.50 TO \$1.00 FOR PAST SEVERAL WEEKS. INTRODUCTION WILL GO
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ON TO STATE THAT IF CURRENT RATE DOES NOT IMPROVE,
AMOUNT FROM 1974 CONTINGENT FINANCING APPROPRIATION

WHICH JUNE OR SEPTEMBER BOARD WILL BE ASKED TO APPROVE FOR USE WILL INCREASE FROM \$2-MILLION ESTIMATED PREVIOUSLY (BASED ON AS 21.00 TO \$1.00) TO APPROXIMATELY \$3.03-MILLION, AND THAT CONTINUATION OF CURRENT RATE THROUGH 1975 WOULD CAUSE DOLLAR AMOUNTS OF PROGRAM APPROPRIATIONS FOR 1975 TO BE INSUFFICIENT BY AN ESTIMATED \$1.6-MILLION. SUCH INSUFFICIENCY WOULD HAVE TO BE COMPENSATED IN SOME WAY, OR PROGRAM EXPENDITURES CORRESPONDINGLY REDUCED.

4. MISSION HAS DISCUSSED DEPT'S SUGGESTED ALTERNATIVES OF BORROWING AUTHORITY OR USE OF WORKING CAPITAL FUND WITH SECRETARIAT, WHICH FEELS THAT NEITHER WOULD RESPOND TO PROBLEM (IF EXCHANGE RATES CAUSE IT TO EVENTUATE) WHICH AGENCY WOULD ACTUALLY HAVE IN 1975. BOTH MEASURES RELATE ESSENTIALLY TO CASH SITUATION, AND ONLY SECONDARILY TO APPROVED APPROPRIATION LEVELS. LAST YEAR, THEY CAME IN FOR DISCUSSION BECAUSE AGENCY WAS FACING BOTH BUDGETARY CRUNCH, AND ALSO ACUTE CASH LIQUIDITY PROBLEMS. CASH PROBLEMS HAVE BEEN ESSENTIALLY MET, LARGELY BY AGREEMENT ALL MAJOR CONTRIBUTORS TO ADHERE TO FIXED SCHEDULE FOR PAYMENT THEIR ASSESSMENTS. FURTHER, VIRTUALLY ALL MAJOR CONTRIBUTORS (EXCEPT US) HAVE ALREADY PAID UP FULL SHARES OF 1973 SUPPLEMENTAL ASSESSMENT (REDUCING OUTSTANDING ARREARS OF ASSESSED CONTRIBUTIONS TO LOWEST LEVEL IN YEARS), AND MANY HAVE ALSO PAID FULL 1974 ASSESSMENTS, WHICH INCLUDED PROVISION FOR CONTINGENT FINANCING.

5. FOR THIS REASON, DEPT'S SUGGESTED MEASURES, IF AGENCY RELIED EXCLUSIVELY ON THEM TO MEET POSSIBLE ADVERSE CURRENCY SITUATION IN 1975, COULD LEAD TO USUSUAL PROBLEM IN THAT YEAR OF AGENCY'S HAVING SUFFICIENTLY LIQUID CASH POSITION BUT INSUFFICIENT AUTHORITY TO SPEND UNLESS AND UNTIL SUPPLEMENTAL APPROVED. SIGNIFICANTLY, IN IAEA (UNLIKE MOST OTHER UN ORGANIZATIONS WHOSE MAJOR MEETINGS ARE IN SPRING), GENERAL CONFERENCE DOES NOT MEET UNTIL SEPTEMBER, SO SUPPLEMENTAL COULD NOT BE ACTED ON UNTIL YEAR WAS THREE QUARTERS OVER.
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AS WE HAVE OBSERVED IN PAST, DG EKLUND IS A CONSERVATIVE FISCAL MANAGER WHO WOULD NOT SPEND HIMSELF INTO HOLE DURING SPRING AND SUMMER AND THEN TELL GC IN FALL THAT IT HAD TO BAIL HIM OUT, HOWEVER MUCH US OR OTHERS PRESSED HIM ON IMPERATIVE NATURE OF AGENCY PROGRAMS IN QUESTION. AS SHOWN BY AMOUNT OF FLACK GENERATED BY SUPPLEMENTARY APPROPRIATION IN 1973, OTHER MEMBERS OF AGENCY ARE FREQUENTLY MORE PRONE TO REACT ADVERSELY TO SUPPLEMENTALS THAN TO OTHER MEASURES, AND TAKE MUCH MORE RIGID POSITIONS THAT SUPPLEMENTALS MUST BE HELD TO MINIMUM,

SOMETIMES IN FINE DISREGARD OF CONSEQUENCES TO AFFECTED AGENCY PROGRAMS DURING YEAR IN QUESTION. DG AND SECRETARIAT ARE ONLY TOO WELL AWARE OF (AND SKITTISH ABOUT) THIS. GIVEN DG'S NATURAL TEMPERAMENT AND FISCALLY CONSERVATIVE NATURE OF AGENCY MANAGEMENT (WHICH US HAS FREQUENTLY AND PUBLICLY APPLAUDED), WE CONSIDER IT INEVITABLE THAT DG'S REACTION TO ADVERSE 1975 CURRENCY SITUATION WHICH REQUIRED SUPPLEMENTAL WOULD BE FIRST, TO INSTITUTE DRACONIAN ECONOMY MEASURES TO MINIMIZE AMOUNT OF SUPPLEMENTAL HE HAD TO REQUEST, AND SECOND, TO PUSH SUCH MEASURES EVEN FURTHER TO AVOID OVERSPENDING EXISTING APPROPRIATIONS UNLESS AND UNTIL GC APPROVED SUPPLEMENTAL; OUR OPINION IS THAT HE WOULD DO THIS EVEN IN RPT IF ASSURED IN ADVANCE OF US SUPPORT FOR FULLY ADEQUATE SUPPLEMENTAL, PARTICULARLY IF U.S. HAD NOT SUPPORTED HIS INITIATIVE TO ANTICIPATE THE PROBLEM BEFORE IT OCCURRED.

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6. LAST YEAR, AS DEPT WILL RECALL, DG'S RESPONSE TO SIMILAR SITUATION TOOK FORM OF BROADLY-APPLIED OBJECT OF EXPENDITURE RESTRICTIONS WHICH RESULTED IN SUBSTANTIAL DISRUPTION IN SECRETARIAT EXECUTION OF APPROVED PROGRAMS DUE TO, E.G. UNFILLED VACANT POSTS, SEVERE RESTRICTIONS ON DUTY TRAVEL, POSTPONEMENT OF MEETINGS, ETC. STANDING REQUEST FOR DEVELOPED MEMBERS TO COVER COSTS OF THEIR NATIONALS' PARTICIPATION IN MOST IAEA SCIENTIFIC AND TECHNICAL MEETINGS, WHICH WAS INSTITUTED AT THAT TIME, IS STILL IN FORCE AND SOMETIMES

STILL PRESENTS PROBLEM FOR US PARTICIPATION. IF HE FELT ECONOMIES NECESSARY, HE WOULD PROBABLY UTILIZE SIMILAR SET OF RESTRICTIVE MEASURES TO ACHIEVE THEM IN 1975.

7. ASSUMING (WHICH WE DO, PER PARA 3 REF B) THAT US REGARDS IT AS ESSENTIAL TO PRECLUDE PROGRAM DISRUPTION WHICH RELIANCE SOLELY ON SUPPLEMENTAL DURING 1975 (IF PROBLEM AROSE) WOULD CAUSE, ONLY MEASURES LEFT TO HANDLE PROBLEM OF BUDGETARY INSUFFICIENCY IF EXCHANGE RATE STAYS BELOW AS 21.00 TO \$1.00 WOULD APPEAR TO BE A) IMMEDIATE CHANGE IN CURRENCY OF ACCOUNT OR PAYMENT FROM DOLLAR TO SCHILLINGS; B) EFFORT TO RECAST BUDGET COMPLETELY TO REFLECT LOWER RATE FOR SCHILLING AGAINST DOLLAR; OR C) RE-INSERTION OF CONTINGENT FINANCING APPROPRIATION, UNDER SAME CONDITIONS AS FOR THIS YEAR, LIMITED OFFICIAL USE
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IN 1975 BUDGET BEFORE GC APPROVES IT. ALTERNATIVE A) WAS DISCUSSED EXTENSIVELY LAST SUMMER (IN FACT, US FAVORED AND STRONGLY SUPPORTED 1974 CONTINGENT FINANCING APPROPRIATION TO PRECLUDE THIS MEASURES); THERE SEEMS TO BE LITTLE ENTHUSIASM LEFT FOR IT, SECRETARIAT HAS NOW SWITCHED TO FLAT OPPOSITION TO IT, AND MISSION DOUBTS THAT IT WOULD PRICK UP MUCH STEAM UNLESS NO OTHER ALTERNATIVE AT ALL APPEARED TO BE AVAILABLE. ALTERNATIVE B) IS JUST BARELY PHYSICALLY POSSIBLE (BOARD APPROVAL OF BUDGET IN JUNE WOULD, OF COURSE, HAVE TO BE MADE CONTINGENT ON RECASTING EXERCISE BEFORE BUDGET IS CIRCULATED IN GC DOCUMENT), BUT EFFECT WOULD BE TO SIMPLY APPROPRIATE FUNDS TO MEET HYPOTHETICAL CURRENCY PROBLEM WITH NO STRINGS LEFT ATTACHED SHOULD CURRENCY PROBLEM IN FACT NOT APPEAR. AGENCY WOULD PROBABLY FEEL MORALLY BOUND TO REALIZE ANY POSSIBLE SAVINGS, IF CURRENCY PROBLEM DID NOT PROVE AS BAD AS PROJECTED, AND RETURN RESULTING SURPLUS TO MEMBERS. HOWEVER, SUCH PRACTICE WOULD BE BAD PRECEDENT. ALSO, MISSION FEELS THAT IT IS DUBIOUS ENOUGH THAT OTHER MEMBER STATES ARE UNLIKELY TO BUY IT.

8. THIS LEADS BACK TO CONTINGENT FINANCING APPROPRIATION INCLUDED IN 1975 BUDGET PRESENTED TO GC THIS SEPTEMBER, WHICH IS APPROACH FAVORED BY SECRETARIAT. IT HAS ADVANTAGE OF PRECEDENT OF 1974, WHICH SET TERMS AND CONDITIONS FOR SUCH AN APPROPRIATION AS MEANS OF COPING WITH POTENTIAL BUDGETARY INSUFFICIENCY CAUSED BY POTENTIAL CURRENCY PROBLEM, AND COULD BE INTRODUCED SIMPLY BY OBSERVING THAT EXCHANGE MARKET IS STILL FLOATING AND SAME TYPE OF UNCERTAINTY STILL EXISTS. OTHER WESTERN STATES ARE LIKELY TO FAVOR IT OVER SIMPLE RECASTING OF BUDGET SINCE IT RETAINS BOARD CONTROL OVER USE OF

FUNDS UNTIL ADVERSE CURRENCY DEVELOPMENTS ACTUALLY REQUIRE THEM, AND SINCE IT WOULD BE INCLUDED ON SAME BASIS AS SIMILAR 1974 APPROPRIATION) IT WOULD BE ACCOMPANIED BY COMMITMENT FROM DG NOT RPT NOT TO REQUEST SUPPLEMENTAL FOR SAME PURPOSE LATER DURING 1975. EVEN SOVIETS (WHO PUBLICLY TREAT ENTIRE CURRENCY PROBLEM AS ONE INFLICTED BY DEVELOPED WESTERN STATES ON REST OF WORLD) ARE LIKELY TO BE MUCH HAPPIER WITH THIS APPROACH LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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AND RETENTION OF BOARD CONTROL THAN WITH ONE INVOLVING RECASTING BUDGET TO TAKE ACCOUNT OF LOWER PREVAILING RATE. SIMPLE CONTINUATION OF THIS APPROPRIATION, IN SMALLER AMOUNT OF 1975 BUT UNDER SAME TERMS AND CONDITIONS, PRESENTS BEST PROSPECT OF AVOIDING BRUISING BUDGETARY FIGHT IN BOARD AND GC OVER A 1975 SUPPLEMENTAL, WHICH WOULD GET OUT OF CONTROL AND PRODUCE ANY OF A NUMBER OF ACTIONS DETRIMENTAL TO US INTERESTS. FINALLY, PRESENCE OF SUCH APPROPRIATION IN BUDGET WOULD PROVIDE FAIRLY GOOD ASSURANCE THAT AGENCY PROGRAMS WOULD BE IMPLEMENTED AS APPROVED WITH FUNDS ALREADY IN HAND (PENDING BOARD APPROVAL), RATHER THAN BEING HAMSTRUNG PENDING APPROVAL OF A 1975 SUPPLEMENTAL BY DG'S FISCAL CONSERVATISM. MISSION CONTINUES TO FEEL THAT INCLUSION OF APPROPRIATELY-SIZED CONTINGENT FINANCING APPROPRIATION IN 1975 BUDGET WOULD BE BEST POSSIBLE MEANS OF PRESERVING US INTERESTS IN EXECUTION OF IAEA PROGRAM WHILE MINIMIZING EXPENDITURE OF MEMBERS' FUNDS IF NOT REQUIRED AND AVOIDING SOME OTHER ACTION FOR WHICH NO PRECEDENT EXISTS.

9. AT PRESENT, MISSION FEELS THAT WORDING TO BE USED BY SECRETARIAT IN INTRODUCTION TO BUDGET IS ABOUT BEST OUTCOME WE COULD GET. IF RATE FOR US DOLLAR AGAINST SCHILLING RECOVERS RAPIDLY TO APPROXIMATE AS 21.00 TO \$1.00 BEFORE A AND B COMMITTEE, AND STAYS THERE THROUGH JUNE BOARD AND SEPTEMBER GC, SITUATION WILL PROBABLY REMAIN AS STANDS. IF, HOWEVER, RATE CONTINUES TO HOLD IN PRESENT RANGE AROUND AS 19.50, OR EVEN RECOVERS SOMEWHAT BUT NOT TO AS 21.00, MISSION FEELING IS THAT PRESSURE FROM OTHER MEMBERS TO DO SOMETHING IMMEDIATELY TO AVOID REPETITION OF LAST YEAR'S FRANTIC BUDGETARY SCRAMBLE WILL BECOME ACUTE. SECRETARIAT HAS MADE IT CLEAR THAT IF RATE IS STILL STUCK AT AROUND AS 19.50 FOR ANY LENGTH OF TIME, THEY COULD NOT RPT NOT, IN GOOD CONSCIENCE OR GOOD JUDGEMENT, ASSERT TO A AND B COMMITTEE OR JUNE BOARD THAT SOME MEASURE SUCH AS CONTINGENT FINANCING APPROPRIATION SHOULD BE AVOIDED. FLOATING CURRENCY MARKET HAS GIVEN AMPLE EVIDENCE OF ITS CAPACITY TO PRODUCE UNFORESEEN SURPRISES FOR INTERNATIONAL ORGANIZATIONS DESPITE EXPERT PROJECTIONS OF ITS PROBABLE COURSE, AND IN VIEW OF HISTORY OF LAST

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18 MONTHS, SECRETARIAT WOULD HAVE HARD TIME ARGUING THAT EVERYTHING CAN NOW BE EXPECTED TO STABILIZE AND PROCEED NORMALLY. FURTHER, MISSION ALREADY FINDS IT SOMEWHAT EMBARRASSING TO BE ARGUING STRONGLY AGAINST INCLUSION OF THE CONTINGENCY APPROPRIATION THAT WE WERE STRONGLY IN FAVOR OF LAST YEAR, AND OTHER MEMBERS CAN BE RELIED ON TO ENJOY POINTING OUT INCONSISTENCY IN US POSITION IF WE HAVE TO DISCUSS MATTER IN PUBLIC.

10. MISSION WILL REPORT PRIOR TO A AND B COMMITTEE AS TO PREVAILING CURRENCY SITUATION IN VIENNA AND EFFECT THAT THIS IS HAVING ON SECRETARIAT PERCEPTIONS OF REQUIREMENT FOR CONTINGENT FINANCING APPROPRIATION FOR 1975, AND ON DISPOSITION OF OTHER MEMBERS TO RAISE MATTER AND/OR PROPOSE ACTION TO PROTECT AGAINST IT AT COMMITTEE. PORTER

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